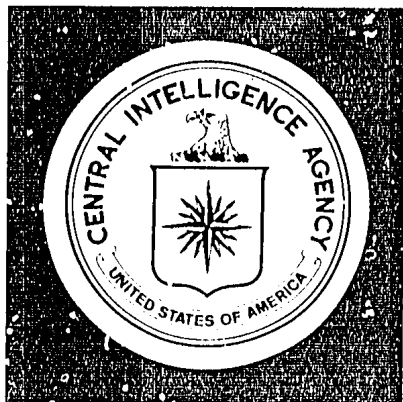


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Weekly Review, Special Report—Brazil: A Year of Change SC 00752/75A

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# Weekly Review

## Special Report

*Brazil: A Year of Change*

~~Secret~~

March 21, 1975  
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BRAZIL  
A YEAR OF CHANGE

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President Geisel

In the year since President Ernesto Geisel assumed office on March 15, 1974, significant changes have occurred in Brazil, both economically and politically. The euphoria accompanying the economic boom of the late sixties and early seventies has given way to uncertainty, as the country feels more and more the effects of worsening international economic conditions and recurring domestic problems. Foreign policy has undergone significant shifts—regarding Eastern Europe, China, and the Middle East—designed primarily to shore up Brazil's international economic position. Finally, there has been real, although uneven, progress in Geisel's effort to ease the restraints on political life and seek a limited rapprochement with disaffected sectors of society.

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### Economic Problems...

For several years prior to Geisel's presidency, Brazil's economy regularly experienced annual growth rates of more than 10 percent, steady reduction of inflation, rapid growth and diversification of exports, and a steady influx of foreign capital. During 1974, however, inflation rose again, the result of increased domestic demand and rising prices for imported goods. The balance of payments became a critical problem as the cost of needed imports—especially oil—soared. Foreign exchange holdings decreased by more than a billion dollars as the bills for imports mounted while inflows of foreign capital, reflecting world conditions, decreased sharply after mid-year.

Nevertheless, economic problems—including the prospect of a substantial decline this year in overall growth—have not dampened the administration's public optimism. Official spokesmen continue to stress the very real progress the country has made and continues to make. President Geisel, for example, in his year-end speech, stressed Brazil's ability to reach its development goals. He pointed to the high rate of employment, prospects for good harvests, and current industrial expansion. Such economic problems as Brazil has, he said, are largely attributable to outside forces and can be dealt with.

In addition, the finance minister and other top planners recently emphasized how much more growth Brazil is likely to experience this year than most industrialized nations, whose economies may very well stagnate or grow only marginally. Top officials also point out that inflation, which caused problems during much of last year, was again being brought under control.

Outward optimism notwithstanding, there is a realization among government officials that a lowering of economic expectations is virtually unavoidable. No longer do economic planners predict a yearly growth rate on the order of 10 percent or, for that matter, any specific figure. In private, some speak of growth this year of 5 or 6 percent—still impressive, but a comedown for Brazil. This year, also, the government has set no

specific target for the reduction of inflation, a practice that had become almost routine in the previous administration. Finally, in recognition of the serious balance-of-payments situation, tight controls have been placed on imports, a move certain to have an inhibiting effect on growth.

President Geisel has put his own stamp on the formulation and implementation of economic policy. For example, he has created two organizations aimed at achieving the administrative efficiency for which he is noted and at increasing his already high degree of personal control over the policy-making machinery. The Economic Development Council, presided over by the President, brings together the ministers of finance, industry and commerce, agriculture, and interior. Geisel has also revamped the former Ministry of Planning and redesignated it the Planning Secretariat. Both the Planning Secretariat and the Development Council have been made integral parts of the office of the presidency. The net result is that no single minister has achieved or is likely to achieve the dominant status exercised in the previous administration by former finance minister Delfim Netto.

### ...And Their Domestic Impact

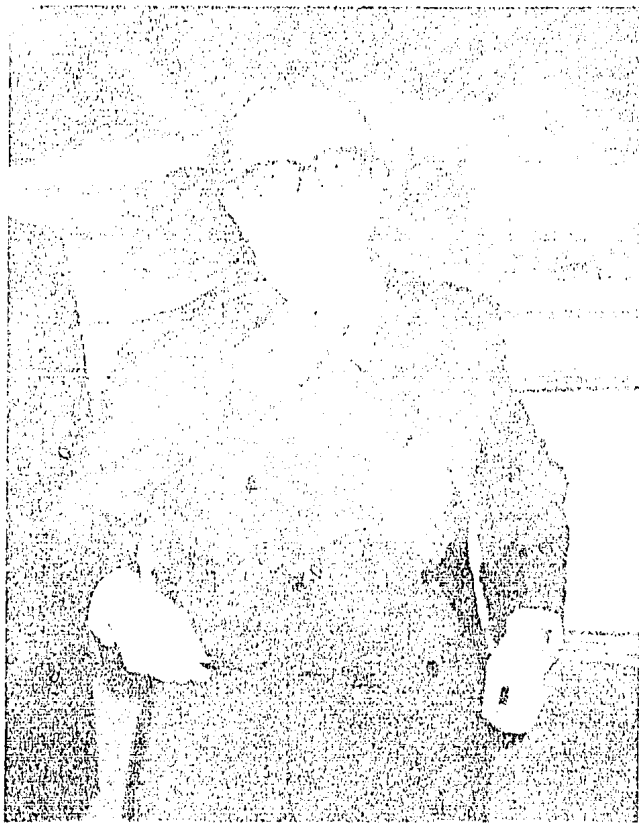
Since Brazil's military-backed regime bases its claim to power largely on its ability to deliver on sweeping economic promises, the government is apt to be highly sensitive to any economic setback, still more so if there is any possibility of a prolonged, serious downturn. In the face of the relative slowdown of the economy, the administration has included in the list of economic priorities this year a number of items that reflect increased attention to matters not related primarily to growth. Specifically, the government gives prominence to the need for social development and for more equitable income distribution. Geisel has set limits on the amount of price increases permissible this year on goods and services provided by the public sector, and has allowed substantial wage increases ahead of schedule.

These moves were designed in part to blunt the appeal of the opposition party, which capitalized on rising discontent over worsening

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economic conditions—particularly high prices and tight consumer credit in the elections last fall. Moreover, it is probable that the regime, with the luster of its economic image slightly tarnished, is seeking to broaden its base of support, thus far confined largely to the military hierarchy allied with business and big agricultural interests.

Regardless of the motivation, the moves constitute a response to specific popular demands. In this regard, the Geisel regime differs somewhat from its predecessor, which was almost exclusively preoccupied with economic expansion and diversification rather than with social issues. Indeed, the embassy believes that there is a good chance that Geisel intends to do more to improve the lot of individual citizens. The magnitude of the balance of payments and inflation problems, however, may force the administration to focus on those two areas, to the virtual exclusion of other, less immediate issues.



Foreign Minister Silveira

### Foreign Policy Shifts

The Geisel administration is still weighing the results of the significant foreign policy shifts that were made during the past year in Brazil's relations with the Communist world and the Middle East. In both cases, economic benefit was the moving force, supported by a growing Brazilian desire to become a major world actor.

Geisel, looking for expanded trade opportunities, made it clear that his administration wanted a sharp increase in its contacts with the Soviet Union and Eastern Europe. Brasilia lowered its ideological barriers substantially as the exchange of trade missions with Communist countries increased and legations in central Europe were raised to embassy status. Moreover, Brazil established diplomatic relations with the German Democratic Republic and, hoping to tap a potentially vast market, moved to recognize Peking as well.

Brazil may be disappointed, however, with the results of its efforts. A Foreign Ministry official has pointed out, for example, what he calls a "difference of goals" between his country and Communist nations. The latter, he says, are more interested in selling than in buying. Moreover, the Brazilians have probably greatly overrated the Chinese market. Finally, increased dealings with Communist countries are not without critics in Brazil, especially among senior conservative members of the military hierarchy.

The success of Geisel's effort to placate the Arabs also has yet to be fully determined. Brazil's recent adoption of a more clearly pro-Arab stance—designed to assure continued supplies of crude oil—has evoked Arab expressions of satisfaction with Brazil's attitude. Another goal—acquiring large amounts of petrodollars—has not yet been met. Brazilian diplomats and other officials are sparing no effort to persuade Arab leaders to invest heavily in Brazil. Brasilia now is anxiously awaiting the visits of leaders from Kuwait and Saudi Arabia, which it hopes will produce concrete results.

Brazil has also increased its activity in black Africa in the past year, recognizing Guinea-Bissau

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#### Geisel meets with Chinese delegation

very early and establishing links with the other Portuguese-speaking areas. Brazil hopes to enhance its image among Third World nations by playing down its traditionally close ties with Lisbon and playing up its support of the decolonization process. To dramatize Brazil's heightened interest in the area, Foreign Minister Silveira has visited Dakar, one of the few visits he has made. Brasilia not only hopes to secure markets but also to gain support in jointly maintaining high prices for agricultural products that both Brazil and Africa export.

A main concern of the Geisel government in its relations with the US is the preservation of access to US markets. To this end, Brasilia has sought to avoid provoking the US while still registering concern over the imposition of addi-

tional tariffs and, more recently, the passage of the US Trade Reform Act. Brasilia's position is somewhat delicate, since it seeks to avoid being lumped with other Latin nations bent on taking the US to task, but also does not want to appear to be yielding to Washington. Recent statements by top officials reflect this situation. The minister of industry and commerce, for example, has told the press that means should be found to "permit Brazil to discriminate against those who discriminate against it." Finance Minister Simonsen said, on the other hand, that Brazil would have to live with the trade act. President Geisel, in a recent speech, stressed the importance of the "new dialogue" but pointed to "restrictive US trade measures" that could ultimately weaken the "fundamentals" of relations between the two countries.

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Opposition party President Guimaraes

Brazil's major interest in Latin America is the preservation and enhancement of its relatively privileged economic position, and the maintenance of its influence with the conservative governments of a number of nearby nations. Brazil is particularly wary of attempts by other Latin nations to establish themselves as competitors for regional leadership. Until recently, Argentina had been the main source of concern. Now, however, Venezuela, which has championed the creation of an exclusively Latin economic system, is emerging as the main claimant for such a role. Foreign Minister Silveira pointed up Brazil's reserve concerning the proposed organization by saying his country would not endorse any grouping principally aimed at confrontation with the US. Brazil questions both the economic feasibility and political motivation of the proposal. Moreover, it does in fact want to avoid provoking the US, its most important trading partner. Foreign policy planners will want to postpone a commitment either for or against the organization until more soundings are taken and its potential effectiveness

can be accurately gauged. Brazil's eventual adherence cannot be ruled out.

#### Political Liberalization

In a speech to the new Congress, President Geisel reiterated his intention to continue the gradual political liberalization that has been his goal for the past year. In customary fashion, however, he tempered his remarks with a warning that "malicious criticism" and "uncalled for pressures" will not be tolerated. Indeed, the Geisel administration does seem committed to an easing of political restraints, but on a protracted basis and on its own terms.

During the past year, there have been numerous signs of a trend toward lessened controls—a process that has come to be known as "decompression." One of President Geisel's first acts, the selection of a cabinet, was widely viewed as a portent of the liberalization to come because two of those chosen are former members of Congress, a body almost entirely ignored by the previous president. The administration also initiated a highly publicized dialogue with the clergy, another group long at odds with the military-backed government. The President himself made a special effort to be seen in the company of some of the more noted liberal church leaders. Formal censorship of newspapers appears to have been greatly, if not entirely, relaxed, although unofficial guidelines are certain to remain for some time. The administration has also dropped direct control of a substantial number of labor unions.

The single most significant element of the liberalization movement was the decision to permit open national elections last November and then to allow the unexpectedly large gains made by the opposition party to stand. Of the Senate's 66 seats, 22 were at stake; of these, the opposition won 16, raising its representation in the upper house to 20. In the Chamber of Deputies, with all seats at stake, the opposition doubled its representation to 40 percent of the seats. It also gained majorities in most important state legislatures. The November results were all the more noteworthy when contrasted with the indirect

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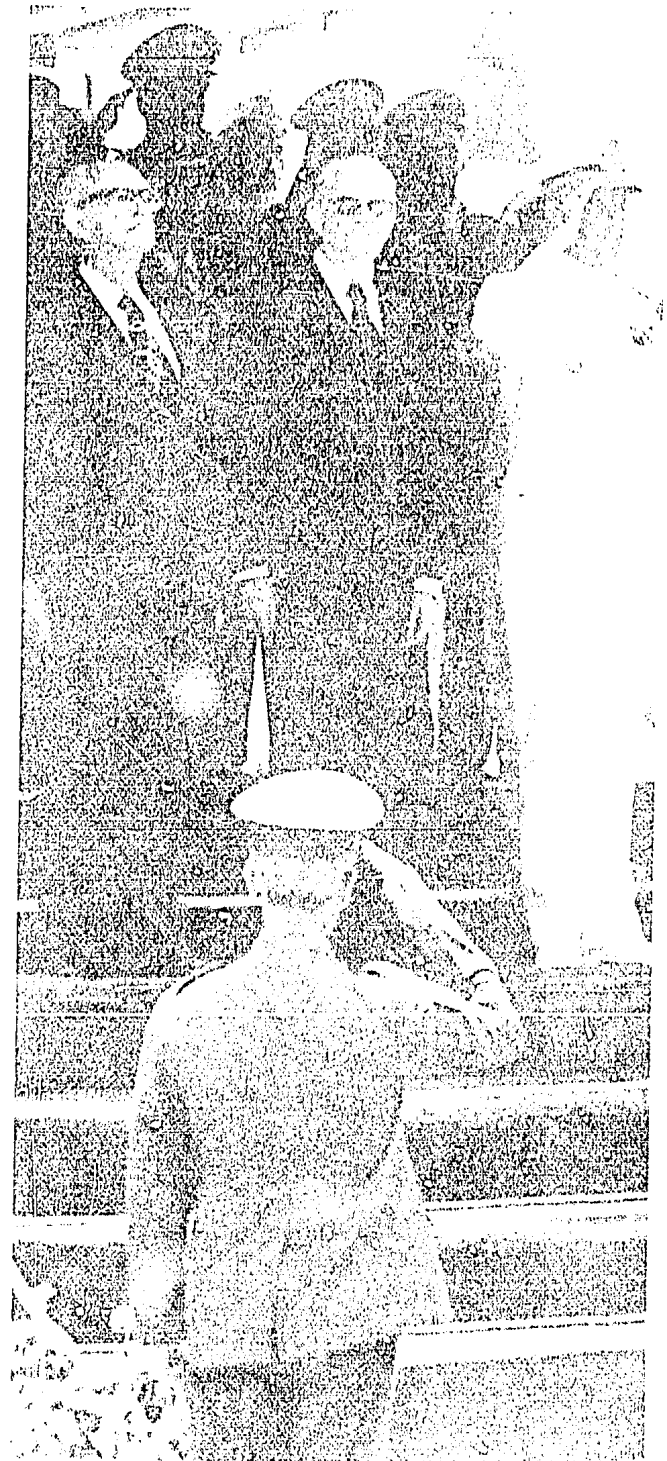
election October 14 of state governors, hand-picked by the President and ratified, unopposed, by lame-duck state assemblies.

When it became clear that the administration, by and large, did not intend to inhibit election campaigning, opposition candidates began to criticize government policies, assailing the high cost of living, the influence of multinational companies, the use of torture, and the holding of political prisoners. The opposition's impressive gains are generally viewed as a mass protest against worsening economic conditions and perhaps to some extent an expression of frustration with over a decade of authoritarian rule.

Geisel's decision to ease restrictions does not mean that he is fundamentally more liberal than his predecessors or that he will proceed to "re-democratize" Brazil in short order. Indeed, his reputation both in military and civilian life has been that of an austere, efficient disciplinarian concerned principally with doing the job at hand. Moreover, Geisel shows no signs of being disposed to modify the vast powers he inherited from previous presidents. He shares the military's conviction that the old-style politics, which it views as corrupt and ineffectual, cannot be allowed to return.

The President is widely known, however, as an intellectual and a member of the so-called "Sorbonne group" of military men with strong academic credentials. His chief adviser, General Golbery do Couto e Silva, is perhaps the foremost member of this group. Geisel and Golbery have concluded that by allowing greater—though not necessarily total—freedom to established institutions, such as the press, the church, and Congress, Brazil in the long run will be easier to govern. This is a decidedly more sophisticated approach than that of previous military-backed governments.

Geisel is also conscious of the fact that the military has been in power for 11 years, despite the stated intention of eventually restoring the country to civilian rule. Indeed, each of Geisel's two immediate predecessors promised to restore democracy by the end of his tenure. This



Special adviser Golbery (l) with President Geisel (c)

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Senate minority leader Montoro

awareness, as well as a desire to compensate somewhat for the relatively lower economic prospects, could provide further stimulus for liberalization.

Geisel's liberalization effort is running into opposition, however, from conservative members of the military hierarchy. Some, particularly security specialists, feel that the President is creating an atmosphere of permissiveness that will embolden irresponsible politicians as well as subversives. The administration, in an apparent attempt to placate these so-called "hard liners," gave considerable publicity to the work of security officials in moves against the Communist party early this year. Continuing arrests of suspected party members and sympathizers may be part of an effort by conservative officers to press Geisel still further by dramatizing the subversive threat. The impunity with which local security officers operate indicates that Geisel still has not brought these services fully under his control.

A number of these officers resent the prominence of General Golbery, whom they view as the principal architect of liberalization in national policy making. They feel that he and Geisel should have prevented the government's poor showing in the November elections by controlling the process much more strictly. Thus far, however, this resentment has not diminished either the influence of Golbery or the administration's desire to continue with liberalization.

#### The Outlook For Liberalization

Opposition by some senior officers to "decompression" will pose a continuing challenge for President Geisel. In dealing with this situation, he will have to be very adept at gauging the extent of that opposition at any given time, lest he underestimate its effects on military unity. To accomplish this, Geisel will look more and more to such trusted confidants as First Army commander General Reynaldo to interpret, and if necessary contain, military discontent.

The behavior of the new Congress and other sectors that stand to benefit from liberalization will have much to do with how strongly the conservatives react to Geisel's program. Unduly defiant attitudes among legislators, for example, could cause disaffected officers to harden their views still further and induce even uncommitted officers to join the ranks of enemies of liberalization. Leaders of the opposition party have sought to allay the fears of conservatives by stressing their party's intention to play a "constructive" rather than "obstructionist" role.

At the moment, the conservative officers do not pose a threat to the stability of the government. Indeed, the President retains wide respect among senior officers. Thus, barring a major setback for the administration such as a serious, prolonged economic downturn, the liberalization process is likely to continue, although its progress will be cautious and halting. (CONFIDENTIAL)

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